



CAPELLA EDUCATION
COMPANY

SHAPING THE FUTURE OF HIGHER EDUCATION POLICY

May 15, 2012

Capella Education Company
225 South Sixth Street
Minneapolis, MN 55402

To Interested Policy Makers, Higher Education Thought Leaders, and Media:

Executive Summary

Higher education is critical to national competitiveness and individual opportunity. The federal government recognizes this reality by making large and essential investments in spending on student aid. Unfortunately, this investment is not producing sufficient results. As a country, the United States sees too few students graduating, increasing student debt, a widening skills gap, strained resources and a declining sense of opportunity. The necessary policy response is to sustain critical federal government support underpinned by the realistic use of policy tools to incent and shape innovation and improve the areas of student outcomes, cost and debt.

The purpose of this policy paper is to engage Capella Education Company in the discussion of how the U.S. can arrive at a policy response that produces the desired outcomes. This is an important time for setting the stage in higher education policy. The presidential election will drive a national conversation about American competitiveness; the post-election confluence of the need to increase the federal debt limit and the impact of the federal spending sequester; and the pending expiration of legislation setting federal higher education policy in 2014, which all combine to create an environment in which positive change is possible.

This is the first in a series of policy papers from Capella Education Company; subsequent papers will focus on the critical issues of student debt, return on investment for the higher education dollar, and the 90/10 regulation.

In this policy paper, we describe two different student populations in higher education: one population is relatively well served, while the other is in a state of crisis and critical to American competitiveness. We offer the following three realities we see facing higher education:

1. The focus of federal policy in the Higher Education Reauthorization Act must be on sustaining funding and improving outcomes for the "second population" of higher education students;
2. Higher education is ripe for innovation, but too often federal policy gets in the way;
3. Regulations and policy that encourage needed improvement and innovation cannot take place without better data.

Finally, we put forward the following three policy proposals to increase data and accountability to drive reform in higher education:

1. Create a national system of higher education outcomes data on which policy can be based;
2. Pass the Wyden-Hunter bill; and
3. Use policy to leverage the private sector as a source for innovation and needed capacity.

Two Populations in Higher Education: Andy and Jennifer

When considering higher education policy, it's helpful to think of two different populations of higher education students.

The first population can be represented by a composite character named Andy. Andy's parents have college degrees and have a household income over \$100,000, he attended a suburban high school at which over 75 percent of students go on to college, and he went directly from high school to his state's large state land-grant institution. Andy represents a population of well prepared, upper-middle class students who can get access to and pay for expensive top tier private and leading public institutions. While there are certainly issues of student debt and post-graduate employment, this population of students is being relatively well served by the current system of higher education. While Andy may fit the common stereotype of an American college student, he's actually in the minority. According to the [National Center for Education Statistics](#), only 15 percent of undergraduate students were first-time higher education students enrolled full-time. While this first-time, full-time designation is not a perfect measurement of higher education populations, it is certainly a quality shared by many of the most prepared students moving from high school to college.

The second population of students is represented by Jennifer. Jennifer belongs to the [72 percent](#) of Americans who are 25 or older without a four-year college degree. She is supporting a child with an hourly salary from her job in the food service industry. She wants to be the first in her family to earn a college degree and has taken courses at two community colleges and one online institution, but she is still several years away from her degree. Jennifer represents a population of higher education students that are not well served by today's higher education system. According to a powerful [piece](#) by Hilary Pennington, current Capella Education Company board member who has recently served as director of education, postsecondary success, and special initiatives for The Bill & Melinda Gates Foundation, attainment gaps between high- and low-income students have doubled over the past 10 years. Only 9 percent of students from low-income households have earned any postsecondary credentials by the time they are 26, compared with more than 50 percent of students from higher-income households.

For policy makers, **Jennifer represents a large, critical majority of the American population that must be the focus of federal policy**. According to the U.S. Census Bureau, only 28 percent of Americans has a four-year degree and the percentage is even worse for African Americans (17 percent) and Hispanic Americans (13 percent). This data is all the more striking when considering the study released last year by the [Georgetown Center on Education and the Workforce](#) which notes that individuals holding a bachelor's degree now earn 84 percent more over a lifetime than someone with only a high school diploma.

America's competitive position is inextricably linked to this population of students. The numbers paint a stark picture. According to the Bureau of Labor Statistics, while there are roughly 13 million Americans looking for work, over three million jobs have gone unfilled because employers are unable to find workers with the right skill sets. Last month, the World Economic Forum released a report with Deloitte Touche Tohmatsu Limited indicating that there are currently 10 million manufacturing jobs worldwide that cannot be filled because of the growing skills gap. The same [study](#) found that a highly skilled and flexible workforce will be the most important quality to employers in the next three to five years. The [Georgetown Center on Education and the Workforce](#) estimates that nearly two-thirds of job openings in the next decade will require some postsecondary education. According to McKinsey Global Institute, there will be 5.9 million more high school dropouts in 2020 than

jobs available for workers with that level of education. Finally, the [Government Accounting Office](#) has warned that the Department of Defense faces skills shortages in critical areas of its civilian workforce.

These are just some of the reasons President Obama and groups like Lumina Foundation have called for the U.S. to produce 10 million more college graduates than we are currently on course to produce by 2020. The challenge posed by this goal is made stark by the reality that according to the Department of Education, in 2009 there were roughly only 21 million students attending college.

It is not hyperbole to say that better serving low-income, minority, and working adult students - students like Jennifer - is a national emergency.

With this policy paper Capella Education Company hopes to engage in and advance the policy debate about how to address the crisis facing the critical student population. The majority of students Capella University educates fall under Jennifer's category rather than Andy's. We serve working adults seeking to advance their careers with an online degree (primarily master's and doctoral degrees). We have worked hard to earn a reputation for innovation, competency-based learning, and transparency; and we are proud of the recognitions we've received. Today we are also proud to have more than 30,000 graduates and to be serving more than 35,000 current students.

Capella Education Company is an organization committed to solving big problems in education, and today the biggest problems are higher education affordability, access, completion, and the ability to close the skills gap. None of those are problems can be solved without serious advances in federal policy.

We want to use the rest of this policy paper to discuss three realities facing higher education and offer proposals for beginning to build a system that will better meet the needs of those who are underserved today.

Three Realities

Reality 1: The focus of federal policy in the Higher Education Reauthorization Act must be on sustaining funding and improving outcomes for the "second population" of higher education students.

We must substantially improve affordability, access, and completion, while preparing more Americans for meaningful employment. To do so, policy makers must be focused on the area where the vast majority of America's higher education students reside. In some ways, this shift is taking place with the federal administration's focus on expanding access to community colleges and increased outcomes reporting from the for-profit sector, but efforts are fragmented and not yet broad enough to generate the necessary scale of change.

This focus will require a reorientation for many policy makers and those in the media. Of the current 100 U.S. Senators, 24 graduated from Ivy League schools, 33 graduated from private schools and 42 graduated from state schools. Many in the administration and national media also come from the first world of higher education. Without a mindful reorientation of thinking, it is easy to think of the challenges of higher education from the perspective of Andy, not Jennifer. This is not a point of criticism. In fact, it is a tremendous testament to how well the U.S. system of higher education can work. However, the reality is

that many policy makers and opinion shapers come from the first population of higher education that is not in a state of crisis.

Reality 2: Higher education is ripe for innovation but too often federal policy gets in the way.

If there is a bright side to the challenges facing higher education, it is that the scale of the challenge in front of us creates the opportunity for new ways of thinking about some very old problems. The conditions exist for serious innovation in higher education. First, a scarcity of funding is forcing states and local institutions to think differently about how they lower costs and increase outcomes. Second, institutions are learning as they are forced to do more with less, and they are becoming more nimble about the use of data to drive outcomes. Third, advances in information technology, including the recent explosion of mobile computing and online learning, have created a technical infrastructure that can enable data-based policy decisions. Finally, scattered accountability requirements like state initiatives, gainful employment disclosures, accreditation requirements and state initiatives are beginning to place greater institutional focus on outcomes rather than inputs.

Capella University is driving innovation by using the data drawn from our online competency-based curriculum to set up a system of analysis that will allow us to engage with the learners who are at the greatest risk in a pro-active and real-time way. For example, because of our competency-based curriculum and IT infrastructure, Capella is able to know immediately if a student in our MS in Education program has failed to demonstrate mastery of a skill necessary for the degree she is pursuing, and can immediately adjust her course of study accordingly. It is our expectation that this will increase our students' success. While we are at the front-end of a multi-year series of pilots and experiments, we are seeing progress in our early results. Additionally, we are working with our social teaching and learning website [Sophia](#) to create pathways to assessment that will ultimately lower the cost of a degree.

Unfortunately, policy barriers exist to driving wide-spread innovation. Too often policy and regulation focus on traditional inputs, like seat time and credit-hours, because higher education lacks widely adopted metrics for measuring outcomes. This results in limited incentives for improvements around outcomes. Additionally, the widely discussed credit hour (seat-time) requirements put handcuffs on much potential innovation. Finally, there is a lack of meaningful data that can help policy makers and funders shape policy and help schools improve, or help consumers make rational decisions. This leads to our third reality.

Reality 3: Regulations and policy that encourage needed improvement and innovation cannot take place without better data.

Rational policy that drives desired outcomes is shaped by sound data. This data would allow students, parents and governments to hold institutions accountable and allow institutions to manage themselves for improvement. It would also help to reduce cost inflation in higher education and allow the federal government to continue critical funding in higher education while making more efficient investments.

Relevant, comparable and risk-adjusted data will also allow policy makers to create space for innovation on a broader scale than is currently possible today. Accountability and innovation cannot be separated.

Currently, higher education desperately lacks robust, comparable data about the outcomes it should be producing. It is difficult, if not impossible, to compare outcomes across institutions or to link educational data to employment outcomes. There are promising efforts

afoot across the higher education landscape aimed at improving data being driven by organizations such as The Bill & Melinda Gates Foundation, Complete College America, Transparency by Design, Lumina Foundation, The Aspen Institute and National Governors Association to name a few. These efforts could provide crucial templates or models for how data can be captured and evaluated. The Department of Education recently took an important first step in this area by announcing it would expand IPEDS graduation data beyond first-time, full-time students. However, more work is needed.

Three Policy Recommendations

The realities highlighted above are the foundation for the following policy recommendations focused on laying the groundwork for a policy environment that encourages innovation by increasing data and accountability. As the Higher Education Opportunity Act (which sets federal policy on higher education) comes up for renewal in 2014, there is a significant opportunity to reshape the policy environment to address the national crisis higher education faces in getting the educational outcomes we need.

1. Create a national system of higher education outcomes data on which policy can be based

Federal data that is comparable across institutions is the key to unlocking policy that drives improved outcomes. There is no other way to get there. It is also critical that outcomes measurement and analysis take into account the differences between institutions. It is not possible to create one-size-fits-all policy for institutions serving the two different populations of higher education students. This is why it is critical that the data be comparable.

Specifically, higher education in the U.S. needs greater data on the following:

- *Comparable graduation rates*
This is the most obvious metric of institutional success; yet, a simple stand-alone number is inadequate and misleading. As we discussed earlier in this policy paper, a critical public policy objective for higher education is successful graduation of those students who are less likely to graduate. By simply establishing a high graduation rate as a policy objective, a perverse incentive is established to only educate those students certain to succeed, or to lower the bars of rigor and quality, both negative policy outcomes. Instead, the graduation metric needs to be risk adjusted so those institutions doing the hard work to get the most at-risk populations across the finish line can be supported. The point is not to provide a free pass to those institutions working in the second population of higher education on graduation rates, but to identify those institutions delivering the best outcomes. Institutions and education thought leaders are moving to address this issue themselves, but ultimately this issue will need support through federal policy.
- *Cost to the student*
There is data today on cost to students and cost to produce a graduate, but it is inconsistent and not always clearly organized. Again, it is possible that the new gainful employment regulations will provide a model for all schools.
- *Cost to the taxpayer and cost to produce a graduate*
In an era of increasingly tight budgets, this is a critical and not well understood question. Where are the taxpayers getting the most value for their dollars? Again, as with graduation rates, this is a question that should include the population of students being educated. The institutions educating the most critical populations and providing value to taxpayers should be supported. Capella University, a higher education institution that focuses on working adults, pays significant taxes, and has

a relatively low cohort default rate, could make a case that it provides a significant value to the taxpayer. Finally, each state's schools report their financial information differently, which does not allow for detailed examination of what it costs an institution to produce a graduate.

- *Employment outcomes*

Today, colleges and universities have a limited ability to tell a data-driven story about the return-on-investment of their school's degrees. At Capella, we use alumni surveys which are the best tool available, but historically, their value has been limited. Institutions can use general Department of Labor information to make the case about the ROI of a degree or use websites like [payscale.com](https://www.payscale.com), but this research does not provide critical program level data that can be most useful to students. This leaves schools with anecdotal evidence, employer testimonials and high-profile alumni. These are important, but, ultimately, don't drive to the kind of data that can help shape policy.

The federal government could provide critical data on this point by tapping into the data already existing at the Social Security Administration. Information from program graduates could be used to provide an aggregate income picture. In fact, a process is already being built under the new gainful employment regulations to build an internal system to aggregate income data based on a school's program. The Department of Education has social security data from institutions at a program level that could be used to develop income averages to plug into a debt-to-income metric. In coming weeks, the department will release draft rates for those higher education institutions covered under gainful employment. This requirement could be extended to all higher education institutions. We believe that with careful planning and execution, this could be implemented in a way consistent with the Federal Educational Rights and Privacy Act ([FERPA](#)).

Institutions like Capella that are committed to innovation and improved performance would welcome this information. Our ability to engage in a thoughtful ROI conversation is currently limited by a lack of hard data. Our hope is that the Department will be transparent about how this income data is calculated and aggregated and that the data will provide an important source of information for prospective students. Requiring this kind of information from all institutions will create a new reservoir of data that will drive greater clarity about which institutions within the second world of higher education are delivering value to their graduates and which best practices can be modeled and scaled.

Increased reporting requirements can be burdensome and costly, but without increased data and comparable outcomes it will become increasingly challenging to make the case for sustained higher education funding. We believe this work can be done without breaking the bank. Ultimately, it will be more costly not to do the important work of generating increased data and robust transparency.

2. Pass the Wyden-Hunter bill

Passing the bipartisan Student Right to Know Before You Go bill, sponsored by Senator Ron Wyden (D-OR) and Representative Duncan Hunter (R-CA) would be a critical first step toward driving to the kind of disclosure that will produce the data described above. The bill would create a nation-wide database designed to inform students about: post-graduation annual earnings; rates of remedial enrollment, credit accumulation, and graduation; average cost (both before and after financial aid) of the program and average debt

accumulated; and the effects of remedial education and financial aid on credential attainment. The bill would accomplish this by:

1. Replacing existing IPEDS reporting requirements with a state-based and individual-level system that excludes any personally-identifiable data;
2. Requiring these new interoperable data systems to match individual level transcript data to post-graduation employment and earnings outcomes;
3. Reducing institutional reporting burden for institutions that report to both IPEDS and state data systems;
4. Further empowering state data systems, making current federal Statewide Longitudinal Data Systems (SLDS) investments an even better value;
5. Creating a data system with tremendous potential for policy analysis, research, and reporting, that contains no personally-identifiable data.

The Wyden-Hunter legislation is a solid start to addressing this problem and Capella has engaged in a conversation with the authors on ways it can be adjusted to address the needs of institutions like Capella that operate in all 50 states. Additionally, it begins to address the urgent national need for better data that will open the door for greater innovation.

3. Use policy to leverage the private sector as a source for innovation and needed capacity
With regard to the private sector in higher education, recent policy making has been almost exclusively focused on expanding the tools to increase enforcement and prevent bad practices. Effective enforcement is critical, but making it the sole focus of policy with regard to the private sector misses the larger opportunity. The private sector has a necessary role to play in pursuing innovation and expanding capacity (especially with regard to the most critical population of higher education students). At a time when public resources are stretched thin and are going to be under enormous pressure in years to come, the private sector adds critical value across higher education by pursuing innovation across a variety of platforms.

Federal policy can encourage this innovation and capacity building and this can be done can by increasing the outcomes measurements and disclosures we have discussed in this paper. Outcomes measurements and transparency across all sectors will be the most powerful tool the Department of Education can have to drive the kind of innovation and capacity building it wants to encourage. We could write an entire policy paper about what we think is positive and negative about the gainful employment rules of the last two years, but one factor we'd highlight is disclosures. The department required for-profit institutions to disclose critical information like cost, on-time completion, and student debt levels for their programs (for information on Capella's programs, go to capellaresults.com and on the outcomes tab, click on a specific program). If this information were made uniform (we'd offer the disclosure format we've used as a model) and applied across all sectors, it would drive the right kind of behaviors and innovations.

Another way for the department to use policy to drive the right kinds of outcomes is through the frequent and robust use of sanctioned experimental projects. In our engagements with department officials, we've found them very interested in capturing innovation through experimentation. By dramatically increasing the frequency and speed of department-directed "experimental sites," the Department of Education could act like a start-up investor who, instead of using cash, is using regulatory flexibility to drive the kinds of results it is seeking.

We think Capella is the kind of positive private sector contributor that federal policy should be encouraging. Some important things to know about Capella Education Company include:

- Capella University has been a leader in competency-based learning, the measurement of learning outcomes, and the transparency of those outcomes.
- According to the Department of Education, in 2009 Capella's three-year cohort default rate (6.7%) is dramatically lower than the national average for for-profit schools (21.2%), significantly below the national average for public institutions (9.7%) and nearly the same as the national average for private institutions (6.5%).
- Almost all of our graduates have multiple Department of Education identified risk-factors.

Capella is not perfect, but we are engaging everyday in delivering value to the population of higher education learners represented by Jennifer. Capella is not the only for-profit institution driving the right kind of change. Many of our for-profit peers are driving innovation, and companies like Udacity and StraighterLine are challenging the status quo in education. There are also innovative initiatives coming from traditional institutions like MIT's open courseware project.

While enforcement is critical, federal policy with regard to the private sector in higher education should be broader and focus on factors such as outcomes measurement and disclosure, as well as greater use of experimental sites.

Closing

Improving higher education outcomes is critical to our national success. It is easy to be daunted by the challenges facing higher education. There are no simple solutions or silver bullets. What is clear and what we have argued in this paper is that continued federal support for higher education is vital but it must be based on rational policy and enforcement. To develop rational policy and enforcement, the critical starting place is data, measurement and transparency of outcomes. These factors will create an environment in which needed innovation can take place.

As policy makers, thought leaders and media discuss the critical issues facing higher education, Capella Education Company plans to be a constructive voice for outcomes measurement and transparency that lead to greater innovation and sustained higher education funding.